

Chairman Burns, Senator Hollings and members of the committee, I'm very pleased to be appearing before you today. I feel at home in this committee room where we have worked together over many years to deliver consumers the broadest choices in telecommunications and media. From telephone competition to satellite delivery of broadcast programs to digital television to cable deregulation, we've shared a goal of creating consumer choice in both content and distribution in the context of ever-changing technology. I am proud to share these goals with you and sincerely acknowledge your many successes, most recently in the Satellite Home Viewer Improvement Act and, of course, the landmark 1996 Telecommunications Act. I'm particularly grateful for this opportunity to speak about the planned merger between Time Warner and AOL and will be glad to answer any questions you might have.

I know our merger announcement came as a surprise to many, and the truth is for such a large transaction, it was worked out in a remarkably short period of time.

From my perspective, the AOL-Time Warner merger wasn't a bolt from the blue, but the fulfillment of almost three decades spent in the media business. I began my career with the quixotic hope—or so it seemed—of using cable television to overthrow the stranglehold the broadcast triopoly had on television. Mavericks like Ted Turner and myself believed that the real power of television would only be unleashed when it became a medium driven by consumer choice, with programming alternatives far beyond what three advertising-supported networks could deliver.

The success of that once-radical notion is reflected today in premier pay-television networks like Time Warner's Home Box Office, and our cable systems' lineup of hugely popular networks such as CNN, TBS, Disney, Discovery, ESPN, Nickelodeon, CNBC..... The list is long.

Although we'd never claim that this early experience with cable gave us a clairvoyant glimpse of the Internet, it was profoundly formative. I for one was left with the conviction that we'd barely touched the potential of technology to empower viewers to become their own programmers, with no real limits on their options.

Possessed of this belief, I committed my company in 1994 to the deployment of the world's first fully interactive digital network in our Orlando, Florida, cable system.

Short term, that full service network didn't instantly lead to the rollout of interactive television. Long term, the risk Time Warner took resulted in our cable engineers creating a breakthrough architecture that melded fiber-optic trunk lines with the coaxial connection to subscriber homes to offer a switched broadband avenue for interactivity.

In 1995, Time Warner made a \$5 billion commitment to rebuild its systems with this broadband architecture—a commitment which now stands at \$6 billion. In fact, my faith in cable's pivotal part in the future of digital interactivity was so strong that at a time when reregulation put cable out of favor with investors, Time Warner undertook major acquisitions to expand its cable footprint.

In 1996, the Members of this Committee recognized that exciting new services could flourish only if the policy paradigm shifted its focus from relying on regulation to fostering competition among industry players. The preamble of the 1996 Telecommunications Act aptly describes your vision "...to provide for a pro-competitive, de-regulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies and services to all Americans..." it was that historic shift in policy that significantly contributed to the growing certainty that something profound was taking place in the telecommunications sector. We are grateful for your wisdom in creating the policy environment that allowed that to happen.

From the very moment Time Warner was opening the way for broadband delivery, the first great wave of a truly networked society arrived in the form of the Internet. Today, we're all awash in that wave, or better yet, surfing it, and the sea change has been so sweeping and profound that it's hard to believe that the word Internet itself didn't enter Webster's until 1997.

The growth of the Internet over so short a time reflects the sheer velocity of what's taking place: in 1995, there were 19 million Internet users; five years later, over 200 million. That number will cross one billion by mid-decade. Led by America Online's easy-to-use, consumer-friendly service, a constantly increasing number of people are making e-mail, instant messaging and e-commerce an integral part of how they live, work and communicate.

It would be hard to exaggerate the implications of the Internet revolution. For the first time, human beings have at their disposal a universal, limitless connection that no government, corporation or centralized agency can control. Every user has the ability to offer something new. Every web site contains the possibility of meeting consumer needs in more attractive, efficient ways, so that the noise you hear across the economic landscape is that of time-honored—in some cases, centuries-old—business hierarchies as they crash to the ground.

The first lesson of the Internet has already been written: if you think you can do business in the realm of digital interactivity the way you've always done business, think again.... Thinking again is precisely what Time Warner has been doing for the last five years, as we refocused on achieving a companywide digital transformation.

I've spoken of what that digital transformation did for our cable customers, providing

broadband capacity for high-speed delivery of the Internet. But that was part of a far larger effort. Our multi-billion dollar upgrade also allows us to offer many of the enhanced services our consumers are so eager for. These include increased video offerings, digital television, interactive services and soon, telephony services over the same architecture. As you know, we currently provide facilities based telephone service to businesses through our competitive local exchange carrier. We intend to provide local residential telephone service and, ultimately IP telephony, which we are now testing in Portland, Maine.

Impelled by the nature of our content businesses—operations intimately involved with artistic and intellectual expression in every form—we were pioneers in adapting our flow of creative offerings to this environment. People throughout Time Warner understood the irrevocable impact of what was occurring. They embraced the almost inconceivably broad canvas the Internet provides for expanding the reach of their minds and imaginations.

The challenge for Time Warner was never facing up to the historic significance of digital interactivity. We jumped that hurdle while other media companies were still debating if there was a race. The challenge was time. The global economy in general and the global media industry in particular are on fast forward. They have entered a new context: *Internet time*. As you know, America's leadership in deploying and using the Internet around the world is unique. However, there exists the fierce competitive determination of entrepreneurs across the globe to catch and surpass us.

From my early conversations with Steve, it became clear that we both understood that those who wished to stay ahead in the instant-to-instant evolution of this medium didn't have the luxury of waiting on events. We saw that the company of the future—a company with the creative infrastructure to provide a constant stream of quality content plus a genetic appreciation of how to form web communities and how to serve them easily and conveniently—had yet to come into existence.

The solution to that puzzle was quickly obvious to both of us: by putting together AOL and Time Warner, we could create the first enterprise not only fully prepared to compete on the Internet—a prototype for the 21st century—but a company that could be a decisive spur to bringing consumers everywhere the speed and immediacy of broadband across all delivery platforms, wired or wireless, thus unlocking the fullest possibilities of interactivity.

For my part, while the economic rationale for our merger was compelling, it wasn't sufficient. Before I could take the step of joining America Online in a merger of equals, I had to satisfy myself about three basic premises.

First, at the very core of Time Warner—the cornerstone of our global reputation and

the enduring basis of the bond of trust we've created with audiences in every part of the world—is commitment to journalistic independence.

Ten years ago, in the landmark decision that allowed the Time-Warner merger to go forward, Chancellor William Allen of Delaware's chancery court spoke of our journalistic culture as "unique," and deserving of protection and preservation. The addition of CNN in 1996 made that culture even richer and more far-reaching.

I have always regarded the defense of that heritage as utterly central to my responsibilities as CEO, and in light of the continuing expansion of news and information outlets—many of which we carry on our cable systems—I've had a heightened awareness of Time and CNN's role in upholding the standard for reliable, unbiased journalism.

Steve Case has been equally clear about his unwavering commitment to journalistic independence, and his unprompted offer to have me serve as CEO of AOL Time Warner was a further reaffirmation of that belief.

Second, as a prime mover in the design, development and deployment of broadband networks, Time Warner assumed the huge financial risk of that investment in the face of strong competition from DSL, DBS and other broadband providers.

In building our broadband capacity, we recognized not just the possibility of consumers having a choice among ISPs but the desirability.

Historically, as we learned so clearly with HBO, the provision of choice is a boon to the dynamic growth of cable subscriptions and a prod to the creation of new and better programming.

AOL and Time Warner now have a shared commitment in the form of a Memorandum of Understanding between our companies to provide consumers with multiple ISPs in a genuinely competitive broadband marketplace, and we will be happy to elaborate on that commitment.

Third, fundamental to how Time Warner defines itself is our sense of community responsibility. This has been basic to who we are from the very beginning, and was best summed up in Henry Luce's formulation that we would always operate "in the public interest as well as the interest of shareholders."

But we're under no illusions.

Like you, we recognize the need for a significant increase in corporate involvement focused on helping equip schools with the resources they need to prepare students to enter the digital economy. *Personally*, as someone who has witnessed firsthand the struggle of dedicated teachers to overcome the shameful inequalities embedded in our educational systems, I regard this need as a *moral* obligation.

As the members of this committee have so frequently articulated, if ever there's been "a clear and present danger" to the future of American society, it's in the "digital divide" that threatens to aggravate long-standing patterns of discrimination and injustice. From the inception of my discussions with Steve Case, I've been impressed with the passionate sincerity of his desire to ensure that his company plays an important role in bridging that divide.

Nothing has been more crucial to the agreement we've reached to merge our companies than *our* vision of AOL Time Warner's ability to be a catalyst for meaningful change in the way our country—indeed, our world—offers its children the opportunity for creative expression, intellectual enrichment and material success.

As large as our merger may seem, it pales beside the open-ended expanse of broadband media, and the wired and wireless access available through PCs, TVs and the burgeoning multiplicity of hand-held devices. From the consumer's point of view, the intense—and intensifying—competitive struggle to offer everything from telephony to digital downloading of music and entertainment to video on demand embodies the best of all possible worlds: more choice, better value and lower prices. And all that can be offered to consumers while still protecting their privacy, an issue of vital public interest that I pledge AOL Time Warner will continue to address in the most serious manner.

Members of the committee, I'm grateful for this chance to express to you my bedrock belief in the positive implications of the merger between AOL and Time Warner. Although the age we've entered will be brutally unsparing of companies that can't or won't move fast enough, it will also empower citizens as never before.

If we do it right—and I'm profoundly optimistic that a clear understanding by both the private and public sectors of what's involved will ensure we do—we will add new dimensions to our economy and our democracy.

I think it's obvious that AOL Time Warner is only the first of many competitive realignments intended to form enterprises with the agility and array of resources to thrive on this new terrain. Given the talent, imagination and values that AOL Time Warner will possess, I'm also confident it will be the most socially responsible and competitively successful.

Along with my colleagues at AOL and Time Warner, I look forward to working with you to make sure that individuals and communities everywhere can use the most powerfully liberating communications tool in human history to amplify and inspire, in Jefferson's wonderful phrase, "the pursuit of happiness."

Thank you.